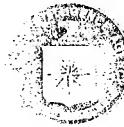


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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

23 March 1983

Thinking about the Risks in Financing
China's New Five-Year PlanSummary

In contrast to past policies of conservative pay-as-you-go financing, China's post-Mao leadership appears to be placing heavy reliance on domestic credit to help fund the Sixth Five-Year Plan (1981-85). We expect the cost of servicing domestic budgetary debt from national bond sales and bank loans to rise substantially during the decade; without careful management, the debt servicing burden could constrain plans for more rapid economic growth in the late 1980s.

Beijing has justified credit expansion in the post-1978 years of persistent budget deficits as an inevitable consequence of its wide-ranging experiments with economic reform. Because borrowing could increase inflation and consumer unrest, we believe critics of Deng Xiaoping's reformist leadership may use any negative fiscal-monetary results to try to discredit the program of economic reform in its entirety. In our judgment, Deng's coalition is willing to take these economic and political risks because to do otherwise would undercut efforts to improve economic management.

How the Plan Will Be Financed

Although Beijing has said comparatively little about financial aspects of the new five-year plan, we can identify some of the key elements.

This memorandum was prepared by [redacted] of the Domestic Policy Branch of the Office of East Asian Analysis, Deputy Directorate of Intelligence. Questions and comments are welcome and may be directed to the Chief, Domestic Policy Branch at [redacted]

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- o Nearly 30 percent of capital investment in 1983 and probably in 1984-85, as well, will be financed by borrowing directly from domestic banks and indirectly from foreign lenders via drawings on foreign exchange held by the Bank of China. The remaining 70 percent will be funded about equally by appropriations from the national budget and by extrabudgetary funds held by local governments, central agencies, and individual enterprises (see Table 1). Beijing had resorted to some domestic and foreign borrowing during the Soviet-aided First Five-Year Plan (1953-57), but the scale was relatively small, and all debts were paid off by 1968.
- o China's planners, using their own accounting techniques, project small budget deficits through 1985. However, using more conventional procedures -- for example, deducting domestic bond sales and foreign loans from revenues -- we estimate the deficits would be about three times larger than Chinese expectations. (see Table 2).
- o Although details are lacking on repayment schedules for domestic loans, debt servicing on domestic bonds issued during 1981-85 alone is likely to become a significant share of budget expenditures toward the end of this decade (see Table 3). Although Beijing expects budget revenues to pick up with faster economic growth in the post-1985 period, debt servicing could complicate efforts to wipe out budget deficits during that period.
- o To meet an expected excess of loans over deposits, the banking system apparently will be called on to increase the money supply by more than 10 percent per year through 1985. Projected currency expansion at that rate is about double the rates of annual increases in consumer goods production and the general level of economic activity planned for that period. (see Table 4). In our view, this will aggravate the already strong inflationary pressures that began to build in 1979 (see Table 5).

Potential Risks

China's recent release of revised data on developments of the past now makes it clear that budget deficits, overexpansion of credit, and excessive printing of new currency have occurred before and were especially serious during the Great Leap Forward of the late 1950s. Beijing's post-Mao reformers obviously want to avoid at all costs a situation as grave as that. Still, the new strategy of augmenting budget allocations with bank credit to finance economic growth carries with it potential hazards that could jeopardize even the modest growth goals of the Sixth Five-Year Plan and expose the advocates of this approach to criticism.

Credit expansion is an integral part of reformist efforts to distribute funds more efficiently by systematically displacing interest-free budget allocations with interest-bearing bank loans. Nonetheless, we are skeptical that Chinese bankers can manage their new responsibilities as deftly as Beijing anticipates. Banking agencies still lack the staff, skills, and administrative clout needed to assess creditworthiness and to resist pressure from enterprises for unjustified loans for working capital and investment funds. In our view, Beijing may find that restraining credit expansion is even more difficult than controlling budget expenditures and deficits.

Expansion of the money supply, needed in part to accommodate rising transactions requirements for currency generated by economic reforms, is likely to put heavy upward pressure on prices. We believe the government could face a choice between hiking already high interest rates on personal savings deposits and domestic bonds or resorting to coercive tactics to soak up excess consumer purchasing power.

Even if the government is successful in holding official retail price increases to perhaps only 2-3 percent per year, chances are that consumer discontent over declining real incomes could force concessions that might:

- o Increase wages in excess of gains in labor productivity.
- o Protect the erosion of peasant incomes through further increases in state purchase prices of agricultural raw materials.

This would lead almost certainly to further increases in retail prices to cover the resulting higher costs of production. During a period in which Beijing intends to curb already huge price, wage, and other budget-financed subsidies, it might find instead that some subsidies must be increased.

Repayments on domestic debt (government bonds, loans to finance budget deficits in 1979-80 and possibly also in 1983-85, and interest on savings deposits) could become substantial in the late 1980s and early 1990s -- a time when Beijing expects faster economic growth. This could narrow the government's investment options and make even more questionable the long-term goal of quadrupling national output by the end of the century.

Some Implications

Despite fragmentary data for analysis -- as the gaps in the appended statistical tables demonstrate -- we believe that Beijing's break with traditionally conservative financial practices has been and is likely to remain a controversial issue among Chinese policymakers and their advisers.

- o A review of Chinese media treatment of the issue reveals that the question of credit and currency expansion has been a persistent topic for debate in professional economic journals ever since the PRC disclosed the largest budget deficit in its history in 1979.
- o The near absence of discussion of credit in the lengthy published excerpts from the new five-year plan also suggests that the issue is controversial. In contrast to otherwise rich data on specific targets for 1985, only one sentence in the excerpts addresses the sources and uses of bank credit, and no details at all have so far been provided on the sources of budget revenue (even though separate sections of the plan are reportedly devoted to these topics).
- o Nor is there any discussion of how the small deficits planned for 1983-85 are to be financed.

Finally, at the National People's Congress held in 1980, the 1979 budget deficit was the subject of critical commentary by many delegates. Even some members of Deng Xiaoping's coalition leadership voiced alarm. Similar criticisms were probably expressed during the NPC sessions of 1981 and 1982.

This analysis leads us to believe critics of credit financing are likely to seize on every negative financial development that might arise in an effort to try to discredit the entire program of economic reform. Proponents of credit financing seem well aware of such prospects, however, and in our judgment their willingness to take on the risks is a measure of their conviction that such measures are essential to ridding the economy of gross inefficiencies in the way capital and materials are allocated. In the past four years, Deng and economic reformers such as Premier Zhao Ziyang have invested a great deal of political capital in the reforms. They apparently believe they stand to lose as much by retreating as by moving ahead.



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China's New Five-Year Plan (U)

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Table 1

China: Financing of Capital Investment in the Economic Plan for 1983^a

| | Percent of Total | |
|--|------------------|-------|
| Investment in new fixed assets | 100.0 | 67.9 |
| Financed by: | | |
| Budget appropriations | 51.1 | |
| Extrabudgetary funds | 21.1 | |
| Credit expansion | 27.4 | |
| Domestic bank loans | 16.8 | |
| Foreign loans | 10.7 | |
| Investment in renovating existing fixed assets | 100.0 | 32.1 |
| Financed by: | | |
| Budget appropriations | 9.6 | |
| Extrabudgetary funds | 59.6 | |
| Credit expansion | 30.8 | |
| Loans from the Construction Bank | 8.3 | |
| Other loans | 22.5 | |
| Total investment in fixed assets | 100.0 | 100.0 |
| Financed by: | | |
| Budget appropriations | 38.0 | |
| Extrabudgetary funds | 33.5 | |
| Credit expansion | 28.5 | |

a. Source: Appendix Table A.1. Components may not sum to totals because of rounding.

Table 2

| | China: State Budget Accounts in Alternative Formats, 1979-85 ^a | | | | | | |
|--|---|--------|----------|--------------|--------------|--------------|--------------|
| | 1979 | 1980 | 1981 | Est. 1982 | Plan 1983 | Plan 1984 | Plan 1985 |
| <u>A. In the Chinese format</u> | | | | | | | |
| Total expenditures | 127.39 | 121.27 | 111.50 | 113.69 | 126.2 | 128.0 | 130.4 |
| Total revenues | 110.33 | 108.52 | 108.95 | 110.69 | 123.2 | 125.0 | 127.4 |
| Deficit | 17.06 | 12.75 | 2.55 | 3.00 | 3.0 | 3.0 | 3.0 |
| <u>B. In an alternative format^b</u> | | | | | | | |
| Total expenditures | 127.39 | 121.27 | 111.50 | 113.69 | 126.2 | 128.0 | 130.4 |
| Total revenues | 106.69 | 104.22 | (103.94) | (104.49) | (116.8) | (119.8) | (122.2) |
| Deficit | 20.70 | 17.05 | (7.56) | (9.20) | (9.4) | (8.2) | (8.2) |
| Financed by: | | | | | | | |
| Use of budget deposits | | | | | | | |
| in banks | 8.04 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans from domestic banks | 9.02 | 8.00 | 0 | 0 | 0 | 0 | 0 |
| Sale of domestic bonds | 0 | 4.75 | (0.25) | 4.20 | 4.0 | (4.0) | (4.0) |
| Foreign loans | 3.64 | 4.30 | 7.31 | (5.00) | (5.4) | (4.2) | (4.2) |
| Total | 20.70 | 17.05 | (7.56) | (9.20) | (9.4) | (8.2) | (8.2) |

a. Source: Appendix Tables A.2 - A.4. Figures in parentheses are our provisional estimates.

b. This format is merely illustrative.

Table 3

China: Estimated Schedule of Repayments of Principal and Interest on Domestic Bonds, 1987-95
Million current yuan

| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1981 bond issue ^a | 1,208 | 1,247 | 1,286 | 1,325 | 1,364 | | | | |
| 1982 bond issue ^b | | 1,088 | 1,136 | 1,184 | 1,232 | 1,280 | | | |
| 1983 bond issue ^b | | | 1,088 | 1,136 | 1,184 | 1,232 | 1,280 | | |
| 1984 bond issue ^b | | | | 1,088 | 1,136 | 1,184 | 1,232 | 1,280 | |
| 1985 bond issue ^b | | | | | 1,088 | 1,136 | 1,184 | 1,232 | 1,280 |
| Total annual repayments | 1,208 | 2,335 | 3,510 | 3,645 | 6,004 | 4,832 | 3,696 | 2,512 | 1,280 |

a. In 1981, the Ministry of Finance issued domestic bonds totaling 4.87 billion yuan. They were sold almost entirely to local governments, state enterprises, and central party, government, and military agencies. The bonds, paying 4 percent simple interest per annum, are repayable beginning in the sixth year after issuance. The bond issue is scheduled to be redeemed in 10 years, with 20 percent per year redeemed in the period 1987-91.

b. In 1982 and 1983, the ministry planned to issue 4 billion yuan in bonds each year, with amounts issued annually thereafter depending on financial needs. In contrast to the 1981 bonds, those issued in 1982-83 were to be sold to both state agencies and individuals, the former paying 4 percent simple interest and the latter 8 percent. The schedule of repayments of principal and interest was calculated on the assumption that bond sales after 1981 totalled 4 billion yuan per year, with half purchased by state agencies at 4 percent and half purchased by individuals at 8 percent.

Table 4

China: Some Key Value Targets and Growth Rates in the Sixth Five-Year Plan

| | <u>Billion current yuan</u> | <u>1980</u> | <u>1985</u> | <u>Growth rate (%)^a</u> |
|--|-----------------------------|-------------|-------------|------------------------------------|
| Net material product | | 366.7 | 455 | 4.4 |
| State budget expenditures | 121.2 | 130.4 | | 1.5 |
| State budget revenues | 108.5 | 127.4 | | 3.3 |
| Banks' uses of funds | 262.4 | 479.4 | | 12.8 |
| Banks' sources of funds ^b | 227.8 | 420.3 | | 13.0 |
| Currency in circulation | 34.6 | 59.1 | | 11.3 |
| Retail sales | 207.1 | 290.0 | | 7.0 |
| Gross value of production in light industry ^c | 233.3 | 299.0 | | 5.1 |

a. Average annual rate of increase, 1981-85.

b. Excluding currency in circulation.

c. In constant 1980 prices.

Table 5
China: Direct and Indirect Indicators of Open and Repressed Inflation, 1978-85^a

| <u>Indicator</u> | <u>Type of measurement</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>Est.</u> <u>1982</u> | <u>1979-81</u> | <u>Plan</u> <u>1981-85</u> |
|---|----------------------------|-------------|-------------|-------------|-------------|----------------------------|----------------|-------------------------------|
| Official price indices | | | | | | | | |
| Retail price index | annual % increase | 0.7 | 2.0 | 6.0 | 2.4 | (2.1) | 3.4 | (2-3) |
| Cost-of-living index | annual % increase | 0.7 | 1.9 | 7.5 | 2.5 | | 3.9 | |
| Personal savings deposits | annual % increase | 16.0 | 33.4 | 42.2 | 31.1 | | 35.5 | |
| Social purchasing power | annual % increase | 12.2 | 23.7 | 21.0 | 11.0 | (13.3) | 18.4 | (7.8) |
| Retail sales | annual % increase | 8.8 | 15.5 | 18.9 | 9.8 | 8.9 | 14.7 | |
| Currency in circulation | annual % increase | 8.5 | 26.3 | 29.3 | 14.5 | (12.0) | | (11.3) |
| Retail sales/currency in circulation ^b | ratio | 6.8 | 5.8 | 5.2 | 5.4 | 5.2 | | |

a. Source: Appendix Table A.8.

b. Chinese planners generally consider ratios of less than about 7 to be indicative of inflation.

Appendix: Detailed Statistical Tables

Explanatory note: Data in the tables were derived from a wide variety of official and semiofficial Chinese sources. Details are available upon request by contacting the Domestic Policy Branch, China Division, Office of East Asian Analysis (telephone number [redacted]) Figures in parentheses were either derived from other data in the tables or are our provisional estimates.

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Appendix Table A.1

China: Financing of Capital Investment in the Sixth Five-Year Plan

| | Billion current yuan | | | | | | | |
|---------------------------------------|----------------------|-------|--------------|-------------------|--------------|--------------|-------------------|------------------|
| | 1980 | 1981 | Est. 1982 | Plan 1983 | Plan 1984 | Plan 1985 | Total 1981-83 | Total 1981-85 |
| Investment in new fixed assets | 53.94 | 44.3 | 52.5 | 50.7 | ---82.5--- | 147.5 | 230.0 | |
| Financed by: | | | | | | | | |
| Budget appropriations | 28.06 | 18.0 | 19.6 | 26.1 ^a | ---54.5--- | 63.7 | 118.2 | |
| Extrabudgetary funds | 16.39 | 14.1 | 17.8 | 10.7 | | 42.6 | | |
| Credit expansion | 9.49 | 12.2 | 15.1 | 13.9 | | 41.2 | | |
| Domestic bank loans | 4.12 | (4.9) | (10.1) | 8.5 | | 23.5 | | |
| Foreign loans | 5.37 | (7.3) | (5.0) | 5.4 | ---8.5--- | 17.7 | 26.2 | |
| Investment in renovating fixed assets | | 22.5 | 26.5 | 24.0 | ---57.0--- | 73.0 | 130.0 | |
| Financed by: | | | | | | | | |
| Budget appropriations | | | | 2.3 | | | 13.1 | |
| Extrabudgetary funds | | | | 14.3 | | | 78.4 ^b | |
| Credit expansion | | | | 7.4 | | | 38.5 ^c | |
| Loans from Construction Bank | | | 1.2 | 2.0 | | | | |
| Other | | | | 5.4 | | | | |
| Total investment in fixed assets | 66.8 | 79.0 | 74.7 | ---139.5--- | 220.5 | 360.0 | | |
| Financed by: | | | | | | | | |
| Budget appropriations | | | | 28.4 | | | | |
| Extrabudgetary funds | | | | 25.0 | | | | |
| Credit expansion | | | | 21.3 | | | | |

a. Includes direct appropriations of 19.63 billion yuan and 6.5 billion yuan for investment in key energy and communications projects.

b. Includes foreign investment.

c. Consists of domestic bank loans.

Appendix Table A.2
China: State Budget Accounts, 1977-85

| | 1977 | 1978 | 1979 | 1980 | 1981 | Est. 1982 | Plan 1983 | Plan 1984 | Plan 1985 |
|--|--------|---------|---------|---------|---------|--------------|--------------|--------------|--------------|
| <u>Revenues^a</u> | | | | | | | | | |
| Taxes | 46,827 | 51,928 | 53,782 | 57,170 | 62,989 | 67,950 | 72,970 | | |
| Income from enterprises | 40,235 | 57,199 | 49,290 | 43,520 | 35,368 | 31,100 | 32,390 | | |
| Other revenue | 323 | 2,833 | 3,616 | 3,530 | 3,281 | (6,840) | (12,440) | | |
| <u>Revenue from domestic funds</u> | 87,385 | 111,960 | 106,688 | 104,220 | 101,638 | (105,690) | (117,800) | | |
| Foreign loans | 61 | 151 | 3,639 | 4,300 | 7,308 | (5,000) | 5,400 | | |
| <u>Total revenue</u> | 87,446 | 112,112 | 110,327 | 108,520 | 108,946 | 110,690 | 123,200 | 125,000 | 127,400 |
| <u>Expenditures^a</u> | | | | | | | | | |
| Capital construction appropriations | 30,088 | 45,192 | 44,380 | 34,640 | 25,755 | 25,270 | 30,780 | | |
| Enterprise modernization | 3,945 | 6,324 | 7,202 | 8,050 | 6,530 | 6,070 | 6,570 | | |
| Technical renovation | 1,710 | 3,777 | 4,364 | | | | | | |
| New product development | 2,235 | 2,547 | 2,838 | | | | | | |
| Geological survey | 1,726 | 2,015 | 2,167 | | | | | | |
| Working capital and credit funds | 6,568 | 6,660 | 5,206 | 3,670 | 2,284 | 2,300 | 2,250 | | |
| Aid and operating expenses for agriculture | 5,068 | 7,695 | 9,011 | 8,210 | 7,368 | 7,650 | 7,750 | | |
| Operating expenses for industry, communications, and commerce | 1,443 | 1,779 | 2,104 | | | | | | |
| Operating expenses for culture, education, science, and health | 9,020 | 11,266 | 13,212 | 15,630 | 17,136 | 19,000 | 20,400 | | |
| National defense | 14,904 | 16,784 | 22,265 | 19,380 | 16,797 | 17,870 | 17,870 | | |
| Administration | 4,332 | 4,909 | 5,687 | 6,680 | 7,088 | 8,000 | 8,500 | | |
| Other (unspecified) | 7,259 | 8,471 | 9,065 | 21,380 | 21,231 | | | | |
| <u>Expenditures from domestic funds</u> | 84,353 | 111,095 | 120,300 | 113,970 | 104,189 | 108,690 | 121,200 | | |
| Foreign loans used for capital construction | Nil | Nil | 7,090 | 7,300 | 7,308 | 5,000 | 5,000 | | |
| <u>Total expenditure</u> | 84,353 | 111,095 | 127,394 | 121,270 | 111,497 | 113,690 | 126,200 | 128,000 | 130,400 |
| <u>Balance</u> | | | | | | | | | |
| Domestic accounts | 3,032 | 865 | -13,612 | -9,750 | -2,551 | -3,000 | -3,400 | | |
| Total accounts | 3,093 | 1,016 | -17,067 | -12,750 | -2,551 | -3,000 | -3,000 | -3,000 | |
| Proceeds from deficit financing: | | | | | | | | | |
| Use of budgetary bank deposits ^b | -- | -- | 8,044 | -- | (2,301) | (-1,200) | (-1,000) | (-1,000) | (-1,000) |
| Overdraft from the People's Bank | -- | -- | 9,023 | 8,000 | -- | | | | |
| Sale of domestic bonds | -- | -- | -- | 4,750 | (250) | 4,200 | 4,000 | (4,000) | (4,000) |

a. For a more detailed breakdown of revenues and expenditures for 1981-85, See Appendix Tables 3 and 4.

b. Positive figures indicate a withdrawal of Ministry of Finance deposits with the People's Bank of China; negative figures indicate additions to deposits.

Appendix Table A.3

China: Draft and Final State Budget Revenues, 1981-83

| | Billion current yuan | | | | |
|---|----------------------|---------------------|---------------|-----------------------|---------------|
| | 1981 | 1982 | 1983 | 1983 | 1983 |
| | Draft | Final | Draft | Prel. Est. | Draft |
| <u>Revenue</u> | | | | | |
| Taxes | 58.05 | 62.99 | 64.60 | 67.95 | 72.97 |
| Income from enterprises | 37.37 | 35.37 | 34.41 | 31.10 | 32.39 |
| Other revenue | 2.24 | 3.28 | 2.44 | (2.44) | 2.44 |
| Enterprise depreciation funds | (210) ^b | | 2.20 | | 2.20 |
| Other (unspecified) | (0.14) | | 0.24 | | (0.24) |
| Subtotal | 97.66 | 101.64 | 101.45 | (101.49) ^d | 107.80 |
| Energy and communications fund ^a | 0 | 0 | 0 | 0 | 6.00 |
| <u>Revenue excluding borrowing</u> | 97.66 | 101.64 | 101.45 | (101.49) | 113.80 |
| Borrowing | 8.00 | (7.56) ^c | 9.00 | (9.20) | 9.40 |
| Domestic bonds | 0 | (0.25) ^c | 4.00 | 4.20 | 4.00 |
| Foreign loans | 8.00 | 7.31 | 5.00 | (5.00) | 5.40 |
| <u>Total revenue</u> | <u>105.66</u> | <u>108.95</u> | <u>110.45</u> | <u>110.69</u> | <u>123.20</u> |
| Revenue from domestic funds | 97.66 | 101.64 | 105.45 | (105.69) | 117.80 |
| Revenue from foreign loans | 8.00 | 7.31 | 5.00 | (5.00) | 5.40 |

a. This is a new revenue source established in 1983 and scheduled to be maintained throughout the remaining years of the Sixth Five-Year Plan at about 10 percent of existing extrabudgetary funds held by local governments, central agencies, and individual enterprises. Extrabudgetary funds were reported to total about 57 billion yuan in 1981.

b. The draft budget for 1981 was revised several times. In an early version, reported to the National People's Congress on 30 August 1980, revenue from enterprise depreciation funds was planned at 2.10 billion yuan -- slightly lower than the 2.20 billion yuan figure given in the draft budgets for 1979, 1980, 1982, and 1983.

c. This is our provisional estimate. For the first time since the 1950s, the PRC in 1981 resumed the practice of issuing national bonds to help finance budget deficits and absorb excess credit and currency in the economy (see the footnotes to Text Table 3). Bonds sales in 1981 totaled 4.87 billion yuan, of which 4.75 billion yuan was used to help offset the 1980 budget deficit (see Appendix Table A.2). Bond sales in 1982 totaled 4.33 billion yuan, of which 4.20 billion yuan was listed as a revenue item in the 1982 state budget. The excess of bond sales over proceeds used in the budget totals 250 million yuan. This figure is only 10 percent of the reported budget deficit of 2.55 billion yuan in 1981, leading us to speculate that to finance the rest of the deficit the Ministry of Finance drew down its deposits with the People's Bank of China or was granted another loan (i.e. an overdraft from the bank). However, the official banking data (see Appendix Table A.5) show the ministry's deposits with the bank increasing in 1981 and no further overdrafts after 1980. We are presently unable to resolve this apparent inconsistency.

d. Finance Minister Wang Bingqian in his report last December on preliminary estimates for 1982 and the draft budget for 1983 noted that, after deducting such non-comparable factors as foreign loans and the new fund for energy and communications, revenues in 1983 are planned to exceed those of 1982 by 6.11 billion yuan, an increase of 5.8 percent.

Appendix Table A.4

China: Draft and Final State Budget Expenditures, 1981-85

| | Billion current yuan | | | | | | Total 1981-85 |
|---|----------------------|---------------|---------------|--------------------|---------------|---------------|------------------|
| | 1981 Draft | 1981 Final | 1982 Draft | 1982 Prel. Est. | 1983 Draft | 1984 Draft | |
| <u>Expenditures</u> | | | | | | | |
| Capital construction, including foreign loans | 32.33 | 33.07 | 29.73 | 30.27 | 36.18 | ---70.48--- | 170.0 |
| Direct appropriations | | | 18.63 | 19.60 | 19.63 | | |
| Energy and communications fund | 0 | 0 | 0 | 0 | 6.50 | | |
| Reserve funds | | | 6.10 | 5.67 | 4.65 | | |
| Foreign loans | 8.00 | 7.31 | 5.00 | 5.00 | 5.40 | | |
| Capital construction, excluding foreign loans | 24.33 | 25.76 | 24.73 | 25.27 | 30.78 | | |
| Enterprise modernization | 5.03 | 6.53 | 5.42 | 6.07 | 6.57 | | |
| Enterprise working capital | (2.00) | 2.28 | 2.40 | 2.30 | 2.25 | | |
| Agriculture | 7.41 | 7.37 | 7.61 | 7.65 | 7.75 | ---15.93--- | 38.7 |
| Science, education, health, and culture | 15.95 | 17.14 | 18.00 | 19.00 | 20.4 | ---40.16--- | 96.7 |
| National defense | 16.67 | 16.80 | 17.87 | 17.87 | 17.87 | ---35.76--- | 88.3 |
| Administration | 5.97 | 7.09 | 7.80 | 8.00 | 8.50 | ---17.21--- | 40.8 |
| Other expenditures | (20.30) | (21.22) | (24.62) | (22.53) | (26.68) | | (175.3) |
| Debt service on foreign loans | | | | 4.97 | 5.10 | | 24.3 |
| Social welfare and pensions | | | | 2.40 | 2.40 | | |
| General reserve fund | (2.60) | | | | 2.00 | | 10.8 |
| Other | | | | | (17.18) | | |
| <u>Total expenditures</u> | 105.66 | 111.50 | 113.45 | 113.69 | 126.20 | 128.0 | 130.0 |
| From domestic funds | 97.66 | 104.19 | 108.45 | 108.69 | 121.20 | | 583.6 |
| From foreign loans | 8.00 | 7.31 | 5.00 | 5.00 | 5.00 | | 26.2 |

Appendix Table A.5

China: State Bank Accounts, 1979-81

| | Million current yuan | | |
|---|----------------------|---------|---------|
| | 1979 | 1980 | 1981 |
| I. Source of Funds | | | |
| A. Deposits | 134,004 | 165,864 | 200,558 |
| 1. Enterprises | 46,891 | 57,309 | 67,407 |
| 2. Treasury (Ministry of Finance) | 14,868 | 16,202 | 19,494 |
| 3. Capital construction units | 13,130 | 17,175 | 22,915 |
| 4. Government department and organizations | 18,488 | 22,945 | 27,488 |
| 5. Urban savings deposits | 20,256 | 28,249 | 35,414 |
| 6. Rural deposits | 20,371 | 23,984 | 27,840 |
| B. Accounts with international monetary institutions | -- | 3,427 | 5,405 |
| C. Currency in circulation | 26,771 | 34,620 | 39,634 |
| D. Bank's self-owned funds | 42,788 | 47,733 | 49,705 |
| E. Bank's current-year surplus | 4,945 | 1,972 | 1,722 |
| F. Other | 7,752 | 8,810 | 7,762 |
| Total sources of funds | 216,260 | 262,426 | 304,786 |
| II. Uses of Funds | | | |
| A. Loans | 203,963 | 241,430 | 276,467 |
| 1. Industrial production enterprises | 36,309 | 43,158 | 50,885 |
| 2. Industrial supply and marketing enterprises and material supply departments | 24,212 | 23,603 | 24,124 |
| 3. Commerce | 123,225 | 143,702 | 163,913 |
| 4. Short and medium term loans for buying equipment | 792 | 5,550 | 8,375 |
| 5. Industrial and commercial loans to urban collective and individual enterprises | 5,751 | 7,829 | 9,915 |
| 6. Partial prepayments for advance purchases of agricultural products | 698 | 788 | 739 |
| 7. State farms | 686 | 940 | 1,675 |
| 8. Rural communes and production brigades | 12,290 | 15,860 | 16,841 |
| B. Gold purchases | 1,216 | 1,216 | 1,204 |
| C. Foreign exchange purchases | 2,058 | -847 | 6,218 |
| D. Balance with the International Monetary Fund | -- | 3,604 | 3,874 |
| E. Credit advanced to the Ministry of Finance | 9,023 | 17,023 | 17,023 |
| Total uses of funds | 216,260 | 262,426 | 304,786 |

Appendix Table A.6

China: Loans and Other Uses of Funds of the State Bank, 1977-81

| | Million current yuan (year-end) | | | | |
|---|---------------------------------|----------------|----------------|----------------|----------------|
| | 1977 | 1978 | 1979 | 1980 | 1981 |
| <u>Loans</u> | | | | | |
| A. Enterprise working capital | | 173,450 | 189,497 | 218,292 | 248,837 |
| Commercial enterprises | 99,700 | 111,770 | 123,225 | 143,702 | 163,913 |
| Industrial enterprises | | 61,680 | 66,272 | 74,590 | 84,924 |
| B. Short and medium loans for purchasing equipment | 0 | 0 | 792 | 5,550 | 8,375 |
| C. Agriculture | | 11,550 | 13,674 | 17,588 | 19,225 |
| Subtotal | 166,300 | 185,000 | 203,963 | 241,430 | 276,467 |
| D. Bank loans to the Ministry of Finance (overdrafts) | 0 | 0 | 9,023 | 17,023 | 17,023 |
| <u>Total loans</u> | <u>166,300</u> | <u>185,000</u> | <u>212,986</u> | <u>258,453</u> | <u>293,490</u> |
| <u>Other uses of funds</u> | | | | | |
| A. Purchases of gold | | | 1,216 | 1,216 | 1,204 |
| B. Purchases of foreign exchange | | | 2,058 | -847 | 6,218 |
| C. Balances with the IMF | | | | 3,604 | 3,874 |
| Subtotal | | | 3,274 | 3,973 | 11,296 |
| <u>Total uses of funds</u> | | | <u>216,260</u> | <u>262,426</u> | <u>304,786</u> |

Appendix Table A.7
China: Deposits and Other Sources of Funds of the State Bank, 1977-81

| | 1977 | 1978 | 1979 | 1980 | Million current yuan (year-end) 1981 |
|--|----------|----------|----------|----------|---|
| <u>Deposits</u> | | | | | |
| A. Financial deposits | 40,100 | (45,680) | (46,486) | (56,322) | (69,897) |
| Ministry of Finance | | 18,740 | 14,868 | 16,202 | 19,494 |
| Capital construction units | | 10,960 | 13,130 | 17,175 | 22,915 |
| Government agencies | | 15,980 | 18,488 | 22,945 | 27,488 |
| B. Enterprise deposits | 38,500 | 36,850 | 46,891 | 57,309 | 67,407 |
| C. Other domestic deposits | 27,800 | 30,900 | (40,627) | (52,233) | (63,254) |
| Urban savings deposits | 13,510 | 15,490 | 20,256 | 28,249 | 35,414 |
| Rural deposits | (14,290) | (15,410) | 20,3/1 | 23,984 | 27,840 |
| Savings deposits of rural commune members | 4,650 | 5,570 | 7,843 | 11,703 | 16,955 |
| Other rural deposits | (9,640) | (9,840) | (12,528) | (12,281) | (10,885) |
| Total domestic deposits | 106,400 | 113,430 | 134,004 | 165,864 | 200,558 |
| D. Accounts with the World Bank and IMF | | | | 3,427 | 5,405 |
| <u>Other sources of funds</u> | | | | | |
| A. Banks' working funds | | | 42,788 | 47,733 | 49,705 |
| Additional budget appropriations for banks' credit fund | | | | | |
| Banks' retained profits | | | | 1,275 | |
| B. Banks' current-year surplus | | | 4,945 | 1,972 | 1,722 |
| Subtotal | | | 47,733 | 49,705 | 51,427 |
| C. Other (unspecified) | | | 7,752 | 8,810 | 7,762 |
| Other sources of funds, excluding currency in circulation | | | | | |
| D. Currency in circulation | 19,540 | 21,200 | 55,485 | 58,515 | 59,189 |
| Total sources of funds | | | 26,771 | 34,620 | 39,634 |
| | | | 216,260 | 262,426 | 304,786 |

Appendix Table A.8

China: Direct and Indirect Indicators of Inflationary Pressure, 1978-85

| | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>Est.</u> <u>1982</u> | <u>Plan</u> <u>1983</u> | <u>Plan</u> <u>1984</u> | <u>Plan</u> <u>1985</u> |
|---|-------------|-------------|-------------|-------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Official price indices (1977=100) | | | | | | | | |
| Retail price index | 100.7 | 102.7 | 108.8 | 111.4 | | | | (120-126) |
| Cost-of-living index | 100.7 | 102.6 | 110.3 | 113.1 | | | | |
| Personal saving deposits (billion yuan) | 21.06 | 28.10 | 39.95 | 52.37 | | | | |
| Social purchasing power (billion yuan) | 136.0 | 168.2 | 203.6 | 226.0 | 256.0 | 276.0 | 296 | |
| Retail sales (billion yuan) ^a | 143.3 | 155.9 | 180.0 | 214.0 | 235.0 | 256.0 | (300) | |
| Currency in circulation (billion yuan) | 21.2 | 26.8 | 34.6 | 39.6 | (45.2) | | | (59.1) |
| Ratio of retail sales to currency in circulation | 6.8 | 5.8 | 5.2 | 5.4 | 5.2 | | | 5.1 |

a. Including peasant sales to nonagricultural residents.